Sask Water
Our Water. Our Future

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Regina, Saskatchewan
March 31, 2002

The Honourable Lynda Haverstock
Lieutenant Governor
Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of Sask Water (Saskatchewan Water Corporation) for the year ended December 31, 2001, including the financial statements in the form approved by the Crown Investments Corporation and audited by PricewaterhouseCoopers LLP, all in accordance with *The Water Corporation Act*.

I have the honour to be, Madam,
Your obedient servant,

Buckley Belanger

Minister Responsible
Chair, Board of Directors

minister's message

As the Minister Responsible for Sask Water, I am pleased to provide this report outlining Sask Water's accomplishments and activities for 2001.

Sask Water marked another busy year in 2001. From severe drought in some parts of the province, to floods in others, public anxiety about drinking water quality across the province, and an ever-growing infrastructure to operate and maintain, the challenges facing Sask Water staff were met and dealt with professionally.

My thanks go to all the employees for their dedication and hard work throughout the year.

Buckley Belanger

Minister Responsible
Chair, Board of Directors

message to stakeholders

We know the demand for good supplies of quality water is at the forefront for many Saskatchewan people. In 2001, we worked together with our partners, stewardship groups, local governments and the public to manage, protect and develop the Province's water resources.

There were a number of highlights for Sask Water in 2001:

- We saw the highest use of our pumping equipment rental program since 1989, giving clients access to equipment to pump water.
- We saw a 40% increase in our Rural Water Quality Advisory Program, with 600 clients served.
- We completed sampling of treated and raw municipal water supplies for over 500 communities throughout the province.
- We completed a technical assessment report for municipal water supply, treatment and distribution systems.
- We held meetings with elected municipal officials at nine locations throughout the province – representatives of nearly 230 communities attended the meetings.
- We met individually with 70 municipalities and had more direct discussions to find solutions to their water needs.
- We worked with irrigators to assist in the establishment of an irrigation development strategy.

It was a year of opportunity and challenge. In closing, we thank the employees of Sask Water for another year of outstanding service to the people of Saskatchewan.

Sask Water Executive Team

board of directors

(as of December 31, 2001)

Honourable Ron Osika
Minister Responsible, Chair

Susan Anholt
Kenaston

Frank Fox
North Battleford

Clare Kirkland
President

Donnett Elder
Fillmore

Dan Palsich
Paradise Hill

Honourable Mark Wartman
Vice-Chair

Dr. Peter Pearce
Vancouver, BC

Jim Walters
Melville

Murray Westby
Watrous

Dennis Zerr
Moose Jaw

Dale Bloom
Corporate Secretary

sask water executive officers

(as of December 31, 2001)

Clare Kirkland
President

Wayne Dybvig
Vice-President
Water Resource & Infrastructure Management

Tom Gehlen
Vice-President
Utility & Engineering Operations

Dr. Greg Argue
Director
Corporate Communications, Policy and Planning

who we are...what we do

Our Mandate and Structure

The Water Corporation Act, proclaimed on July 1, 1984, established the Saskatchewan Water Corporation (Sask Water). The Corporation is an agent of the Crown and is managed by a board of directors.

Sask Water, with its head office located in Moose Jaw, operates with approximately 235 employees. The Corporation has two Divisions: Water Resource and Infrastructure Management; and Utility and Engineering Operations. Corporate services provide financial, legal, human resources, communications and information systems support.

Sask Water employees also serve Saskatchewan residents from offices throughout Saskatchewan.

Our Vision

A thriving Saskatchewan, leading in water stewardship and management.

Our Mission

We manage, protect and develop the province's water and related land resources for the economic, social and environmental benefit of Saskatchewan.

protecting citizens' health

Municipal Water Supply, Treatment and Distribution Systems - A Technical Assessment

Sask Water completed an assessment of municipal water systems in Saskatchewan. This work, done in consultation with Saskatchewan Environment and Resource Management (SERM) and Saskatchewan Health, will lead to the development of longer-term strategies to reduce risks involved with drinking water in Saskatchewan. The Technical Assessment Report considered the effectiveness of treatment plant infrastructure as well as quality management practices.

The safety of a drinking water supply can be characterized by four primary factors:

- effectiveness of governance structures,
- water source characteristics and vulnerability,
- capability of treatment plant processes, operations, maintenance controls and procedures, and
- quality of the treated water.

Sask Water and engineering consultants undertook water system studies at 64 representative Saskatchewan communities to reflect the distribution of communities across the province. Ten cities were also asked to submit information on a voluntary basis. The results of these studies were compiled to provide an estimate of the needs and cost of infrastructure improvements to raw water supply, water treatment, treated water storage, and water distribution systems to reduce health risks associated with drinking water. Sask Water also sampled and tested the raw and treated water supplies for each of the 64 communities.

Sask Water evaluated practices at 44 representative communities. The results provided a foundation for assessment of existing quality management practices, the major deficiencies and cost estimates for implementation of improved procedures. Quality management is important for the consistent production of high-quality drinking water. Quality management is a holistic approach to planning, organizing and understanding the interaction of activities impacting the quality of water.

Four conclusions were drawn from the Technical Assessment Report.

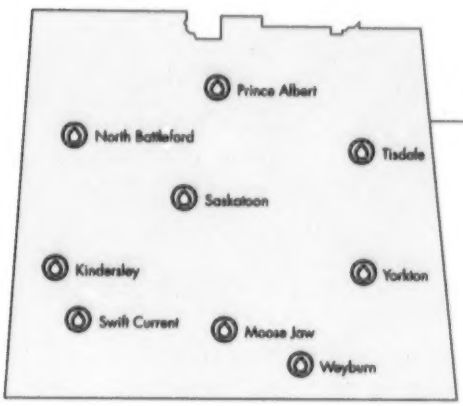
- Quality management is critical to ensure delivery of quality drinking water.
- Many Saskatchewan communities require upgrades to their infrastructure and quality management practices to meet health-related drinking water objectives.
- More than 30% of the estimated cost of infrastructure upgrading is required in communities with populations less than 500.
- Per capita cost to complete the upgrading ranges from $600 to $3,000 depending on the size of the community and the source of the water supply.

Community Meetings on Water Quality

As follow up to the Technical Assessment Report, Sask Water conducted a series of regional meetings with elected municipal officials to consider the issues and challenges related to water quality in Saskatchewan and to discuss potential solutions.

The theme of the meetings, *Quality Drinking Water - Creating Solutions Together,* focused on three objectives:

- providing municipalities with an accurate and comprehensive understanding of water quality issues in their area;
- demonstrating that Sask Water can provide meaningful support to municipalities in seeking to address water quality issues; and
- encouraging municipalities to begin developing solutions to address water quality issues with support from Sask Water.



community meetings

Nine meetings were held during November in the province. Mayors of all municipalities with water distribution systems were invited and 229 communities were represented at the meetings. Officials from Prairie Farm Rehabilitation Administration (PFRA) and SERM also participated at the meetings.

Presenters outlined:

- municipal technical assessment and drinking water treatment challenges,
- water quality management issues,
- the value of drinking water,
- water related regulations,
- infrastructure solutions,
- rural pipelines, and
- potential community utility business models.

In an open discussion surrounding the challenges of providing good safe drinking water, communities expressed their desire to achieve this goal and looked towards cooperative solutions as the way of the future.

Water Supply and Services

For many Saskatchewan communities, adequate supplies of good quality water are far away and expensive for communities to develop. Sask Water is committed to helping overcome constraints to obtaining an assured supply of quality water and adequate wastewater disposal facilities. Utility and Engineering Operations staff worked with a number of municipal and industrial clients to develop cost-effective projects to meet their needs.

In 2001, Sask Water continued to expand the treated water systems around Saskatoon with the completion of booster stations near Clavet and Dalmeny. These stations have increased system supply capacities.

More than 50 communities requested technical assistance from Sask Water throughout the year. In response, Sask Water undertook initial water supply investigations for potential utility developments and prepared terms of reference for use by communities to engage engineering consultants to address their needs.

Serving the North

Sask Water plays a key role in improving the quality of water supplies and wastewater treatment for northern communities. Activities include project planning and management of the design and construction of water and wastewater infrastructure, the provision of technical assistance and the training of municipal operators.

A five year initiative to construct and upgrade the water and wastewater infrastructure in 35 northern communities was announced by Saskatchewan Municipal Affairs and Housing to provide safe and secure water supplies and environmentally acceptable wastewater disposal in the north. Sask Water signed an agreement with the Northern Revenue Sharing Trust Account Management Board to provide project management services for these northern communities that include technical advice for conceptual and feasibility studies, project management during the design and construction of the facilities and assistance with startup and operation. Sask Water's role of providing project management and general technical advice to northern communities is vital to the success of the initiative.

Through a contract with Indian and Northern Affairs Canada (INAC), Sask Water continues to provide training and technical support to operators of First Nations water and wastewater systems.

Water Management Infrastructure

Sask Water owns, operates, and maintains major water control projects throughout the Province. These works are considered public projects, since services to operate and maintain them are provided by Sask Water with no direct cost to the users. Since formation of the Corporation in 1984, some 44 dams, as well as 237 kilometres of canals and pipelines, have been constructed or acquired from other agencies. The various facilities, from small lake-level control works to high earthfill dams, are used to manage the provincial surface water resources. These works store year-round supplies for urban and rural domestic uses, for irrigation and industrial purposes, and provide recreation and wildlife benefits.

In addition to ongoing annual operation and maintenance, Sask Water rehabilitates aging facilities to ensure their long-term integrity and that they meet dam safety criteria and minimize risk to the public. The average age of the works exceeds 35 years with several facilities built more than 60 years ago. Some of the works are under-designed relative to current standards and some project components have attained the end of their useful lives.

Avonlea Dam

Avonlea Dam was built in 1964 for water supply purposes. The predominant use is for intensive irrigation of downstream agricultural lands. Subsequent uses expanded to include water supplies to the town of Avonlea, a rural pipeline utility, Dunnet Regional Park and the Long Creek Golf and Country Club.

Sask Water identified various safety issues with the Avonlea Dam, including inadequate spillway capacities. Phase I rehabilitation, in 2001-2002, involved construction of a new concrete operating spillway and enlarging the earth-cut emergency spillway. In 2002-2003, Phase II rehabilitation will involve upgrading the earthen dam to increase the stability of the downstream embankment slope as well as provide increased protection against over-topping. The total cost to rehabilitate Avonlea Dam is estimated at $5.4 million.

infrastructure table

Rehabilitation Projects
o Alameda Dam
o Avonlea Dam
o Buffalo Pound Dam
o Five Mile Dam
o Lumsden Flood Control Dykes
o Moose Mountain Dam
o Pike Lake Water Intake
o Scott Dam
o Stelcam Weir
o Round Lake Dam
o Theodore Dam
o Qu'Appelle River System

Detailed Safety Inspections
o Broderick East Dam
o Broderick West Dam
o Esterhazy Dam
o Katepwa Dam
o Round Lake Dam

Maintenance and Investigative Work
o Blackstrap North Dam
o Blackstrap South Dam
o Bradwell East Dam
o Darmody Dam
o Emma Lake Diversion (Anglin Lake Pump Station)
o Hugonard Dam
o Katepwa Dam
o Kingsway Dam
o Makwa Lake Control
o Northminster Dam
o Star City Dam
o Summercove Dam
o Spruce River (Anglin Lake) Dam
o Teepee Creek Dam
o Wascana Lake Weir
o West Poplar Dam
o Upper Qu'Appelle River Conveyance

Gardiner and Qu'Appelle River Dams

Sask Water is responsible for the operation and maintenance of the Gardiner and Qu'Appelle dams which impound Lake Diefenbaker along the South Saskatchewan River. The current combined replacement value of these facilities is approximately $1 billion. By volume of earthfill, Gardiner Dam is ranked the largest in Canada and the ninth largest earthfill dam in the world. In addition to providing a major recreation facility, Lake Diefenbaker provides a quality source of domestic water supply for approximately 45% of Saskatchewan residents. Water is also stored for hydroelectric generation through the Coteau Creek power station (as well as for reuse by two other downstream power generation stations) and is the supply source for a number of irrigation districts, seven potash mines and various other major Saskatchewan industries.

Given the importance of and need to ensure the highest level of safety of these works, Sask Water monitors their performance year round. In 2001, approximately $1.19 million was spent on project surveillance, operating, physical maintenance and rehabilitation activities.

Rafferty and Alameda Projects

Sask Water is responsible for the Rafferty and Alameda dams, the water retention facilities near Mainprize Park, the Souris River channel improvements, the wetland project (duck pond) below Rafferty Dam, the Boundary-Rafferty diversion works, as well as administration of the land adjacent to the reservoirs. Sask Water operates, maintains and monitors the dams and related projects as an integrated water management system. In addition to serving as flood-control facilities, Rafferty and Alameda reservoirs enable Saskatchewan to conserve its share of Souris River basin flows for the benefit of its residents.

In 2001, Sask Water completed the first phase of a two-phase undertaking to improve the stability of the upstream slope of Rafferty Dam. Approximately 18,000 cubic metres of rock rip-rap was placed on the face of the dam at an approximate cost of $550,000. Phase II work, entailing the construction of a toe berm (reinforcement), will be undertaken when the reservoir level naturally recedes from the current full supply level of 549.5 metres (above sea level) to approximately 546.0 metres elevation. In 2002, the embankment crest will be restored to design grade subsequent to settlement of the embankment and foundation during the ten year post-construction period.

In 2001, Sask Water engaged an engineering consultant to investigate operational problems with the two drawdown gates in the Alameda Dam low level outlet. The consultant undertook a phased review of gate design criteria, material and fabrication specifications, and measured installation tolerances and alignments. The consultant identified a number of deficiencies and proposed rehabilitation options. Rehabilitation of the operating gate was initiated in 2001 and will be completed in 2002. It is also proposed to initiate rehabilitation of the upstream guard gate next year.

Public Assets

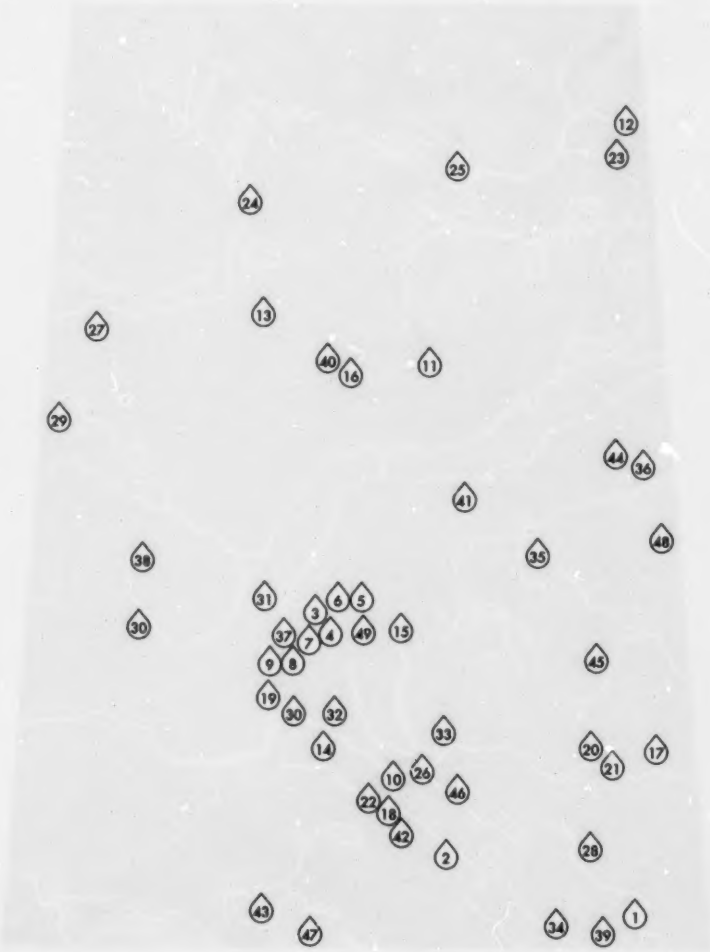
Sask Water constructs various water-related projects considered public assets. Major projects constructed between July 1, 1984 and December 31, 2001 include:

o Rafferty and Alameda Projects	$226,364,000
o Luck Lake Water Supply System	$ 23,400,000
o Riverhurst Water Supply System	$ 32,200,000

In addition to the major facility expenditures noted above, Sask Water also owns, operates and maintains other critical water control projects which have been transferred to the Corporation. Each project provides a unique and essential water management function. Services to operate and maintain these projects are provided with no direct cost to the users. A map showing the projects follows.

public projects

1 Alameda
2 Avonlea Dam
3 Blackstrap North Dam
4 Blackstrap South Dam
5 Bradwell East Dam
6 Bradwell West Dam
7 Brightwater Creek Dam
8 Broderick East Dam
9 Broderick West Dam
10 Buffalo Pound Dam
11 Candle Lake Control Structure
12 Chicken Lake Dam
13 Cowan Lake Control Structure
14 Dormody Dam
15 Dellwood Brook Dam
16 Emma Lake Diversion (Anglin Lake Pump Plant)
17 Esterhazy Dam
18 Five Mile Dam
19 Gardiner Dam
20 Hugonard Dam
21 Katepwa Lake Control Structure
22 Kingsway Dam
23 Kipahagan Dam
24 Lac la Plonge Control Structure
25 Lac la Ronge Control Structure
26 Lumsden Floodway
27 Makwa Lake Control Structure
28 Moose Mountain Dam
29 Northminster Effluent Reservoir
30 Opuntia Lake Dam
31 Pike Lake
32 Qu'Appelle Dam
33 Qu'Appelle River Conveyance Channels
34 Raffery Dam
35 Round Lake Control Structure
36 Ruby Lake
37 Saskatoon South East Water Supply (SSEWS) Conveyance Canals
38 Scott Reservoir
39 Souris River Conveyance Channels
40 Spruce River Dam
41 Star City Reservoir
42 Stelcam Dam
43 Summercove Dam
44 Tee Pee Creek Diversion Works
45 Theodore Dam
46 Wascana Lake Weir
47 West Poplar Dam
48 Woody Lake Control Structure
49 Zelma Dam



Utility Operations

Sask Water owns and operates multi-purpose water supply and sewage disposal projects. These works serve municipal, agricultural, industrial, recreational and wildlife requirements through pipelines, pump stations, surface water delivery systems and sewage treatment and disposal systems.

The works are organized into 12 operating systems:

- Sewage Treatment System
  - o Nipawin Regional
- Water Supply Systems
  - o Saskatoon Southeast
  - o Saskatoon Treated
  - o Saskatoon Raw
  - o Buffalo Pound Treated
  - o Buffalo Pound Raw
  - o Regina East
  - o Codette Lake Regional
  - o Wakaw-Humboldt Regional
  - o Lake Diefenbaker Area
  - o Town of Gravelbourg
  - o Village of Pierceland

These systems consist of 137 kilometres of canals, five storage reservoirs, 32 pumping facilities, four treatment plants, 725 kilometres of pipeline and one sewage lagoon facility. The works currently serve 33 industrial, 43 municipal and 1,292 domestic users.

Pipeline volume increases

The total volume of water supplied by Sask Water to pipeline customers increased by 9.8% (16,142 cubic decametres [dam^3] to 17,717 dam^3). During the year, 12,577 dam^3 of raw water was supplied primarily to industrial customers, an increase of 7.8%. The diversion of treated water increased as well, with 5,140 dam^3 of treated water supplied to industrial, municipal and other customers, a 14.1% increase.

Safe Drinking Water

A major Sask Water focus in recent years has been in the development of treated water supplies to improve the safety of drinking water in Saskatchewan. Since 1993, 15 rural communities became treated water supply customers and now have substantially improved drinking water quality.

Rural Water Quality Advisory Program

Sask Water, through its Rural Water Quality Advisory Program, samples and analyzes water from private rural water supplies and advises clients on the health and aesthetic implications of the analysis. Clients are also advised of suitable treatment processes and the best management practices required to maintain or to improve the quality of their water supplies. The program served 600 clients in 2001 (1,477 clients since November 1997). Of these, 143 were served in the Rural Municipality of Piapot, after the municipality contracted Sask Water to sample the main water supply at each farmstead in the municipality, and 76 had their water supplies sampled through pilot workshops in Moose Jaw, Unity and Arborfield.

Northern Village of Cumberland House

This year, Cumberland House experienced low water levels on Cumberland Lake and low flows on the Saskatchewan River. By winter the village water supply was threatened. Sask Water completed surveys and the design of two dams on the Bigstone River which would provide an enlarged reservoir for the town. Construction of the dams and pumping water to fill the reservoir will be completed early in 2002. A long term solution to the water level and water supply issues will be sought in 2002.

supporting economic development

Sask Water supports economic development in Saskatchewan through the management and development of the Province's water resources. To that end, Sask Water's programs and operations support industry, irrigation, recreation and power generation. The Corporation works closely with individual clients and organized groups, communities and other government agencies to plan and implement sustainable water-based economic development.

A New Strategy for Irrigation Development

Sask Water held a series of stakeholder consultations on irrigation strategy around Lake Diefenbaker in 2001. Stakeholders participated representing irrigation districts, municipal governments and agri-business. In July, a discussion paper entitled *Provincial Irrigation Strategy Development* was prepared and presented in a series of workshops with irrigation districts around Lake Diefenbaker, with Saskatchewan Irrigation Projects Association (SIPA) and Irrigation Crop Diversification Corporation (ICDC), and again at a workshop in Outlook. Sask Water also completed several irrigation strategy studies that included producer interviews, opportunities for increasing provincial Gross Domestic Product (GDP) and employment impact of irrigation construction.

Promoting Research

An essential part of developing the province's water and related land resources through irrigation is a progressive research and development program. Through ICDC irrigators have taken a leadership role in this program. Sask Water supports the work of ICDC by providing two employees to deliver a province-wide research, demonstration and education program. This year's highlights included:

- developing an irrigation website (www.irrigationsaskatchewan.com);
- providing irrigation information in the Agriculture In The Classroom educational material – *Water is Life* was distributed to 1,100 schools;
- developing a provincial bean seed industry;
- publishing Crop Varieties for Irrigation;
- running two major irrigated forage research and development (R&D) centres in Consul and Warman;
- implementing effective pocket gopher control;
- introducing sound agronomics to hog manure management on irrigated land;
- running field demonstrations on flood irrigation in southwest Saskatchewan, including: timothy hay for export, corn grain and silage, and forage fertilization.

Sask Water co-chairs, with PFRA and ICDC, the executive management committee of the Canada Saskatchewan Irrigation Diversification Centre (CSIDC), the world-class irrigation research and development facility at Outlook. This committee oversees the development of an annual business plan for the research centre. Two hundred people attended the annual field day and trade show in July.

Providing Technical Services

Sask Water's Agro-Environmental Unit (AEU) uses global positioning and geographic information systems technology to measure and monitor the health of soils either to be irrigated or that are already irrigated. A total of 10,475 acres were investigated for irrigation certification. Irrigation Certification is required under The Irrigation Act to ensure the environmental sustainability of irrigation development. The AEU also monitors existing irrigation land, water and water tables to protect the province's natural resources. Over 560 wells were used to monitor water table fluctuations in association with irrigation and 58 irrigation water sources (streams and reservoirs) were sampled.

Managing Water for Recreation and Tourism

Sask Water operates a number of control structures on lakes specifically used for recreation. The Corporation also monitors lake levels and provides that information on request to lake users.

Sask Water managed reservoir operations throughout the Qu'Appelle River system and at numerous other lakes around the Province to ensure that lake levels were within the desirable ranges throughout the summer recreation season.

At Good Spirit Lake, a cottage-owner advisory committee was established to work with the Good Spirit Lake Watershed Association in communicating recreational interests to the board. This has led to a better understanding of the respective issues and an improved decision-making process with respect to operations.

Sask Water completed an upgrade of the Round Lake Dam north of Kelvington to make access across the structure safer and to extend the service life of the structure. Repairs were also made to the control structure at Good Spirit Lake.

New Development Investigations

In June 2001, Sask Water joined Alberta Environment in undertaking a study of the feasibility of the proposed Meridian Dam project. The proposed project includes a dam on the South Saskatchewan River near the Alberta-Saskatchewan border, an irrigation delivery system and a hydro power plant. The study will investigate whether the project might provide economic stimulus in a region where a chronic water shortage is perceived by many to be a barrier to economic growth. The study will help the two provincial governments to decide whether the Meridian Dam project concept has sufficient merit to warrant including it among future water management options for the area. Golder Associates Ltd. of Calgary were contracted to carry out the study including extensive stakeholder consultation. The study will be completed in 2002*.

Sask Water worked with a feedlot operator from Avonlea to help establish a suitable water supply for a proposed feedlot of 3,500 head, projected to grow to 10,000 head. Investigations focused on Avonlea Reservoir as a potential water supply. Hydrology studies and a bathymetric survey were completed to determine the availability of water. The economic feasibility of raising the operating level of the reservoir is presently being investigated.

Sask Water also worked with the city of Humboldt to complete the Humboldt Urban Flood Control Project. The project now provides a number of additional benefits, including improved conveyance works to reduce flooding through Humboldt, upstream storage to reduce flood peaks and serve as a water supply for golf course irrigation, and a water body that enhances an urban park setting.

*The Meridian Dam study was released in March 2002, subsequent to the reporting period.

Water for Industry and Power

Hydro power accounts for about 20% of the electricity generated in Saskatchewan. Sask Water continued to forecast flows and plan reservoir operations, services vital for the operation of SaskPower hydro electric generating stations. Because of concerns about hydro operations, Sask Water conducted a water level monitoring study downstream of E.B. Campbell Hydroelectric Station to evaluate extent of water level fluctuations due to hydro operations and their impact.

In response to low flow conditions, Sask Water worked closely with the Sask Minerals sodium sulphate mine at Chaplin to ensure the mine was adequately supplied with water, without adversely affecting adjacent landowners. An application for expansion of mining operations is being assessed.

Saskatchewan River (Lake Diefenbaker) Operations

In response to the drought situation in the basin and the prospects for low water levels on Lake Diefenbaker early in 2001, Sask Water conducted public meetings around the lake area to explain the upcoming reservoir operations. The meetings were well attended and resulted in a useful exchange of information. Also early in 2001, in anticipation of below normal flows, Sask Water reduced releases to the minimum required to meet instream needs. Although water was conserved so all consumptive water demands were satisfied, hydroelectric energy production was significantly reduced.

Southwest Reservoir Operations

Sask Water worked closely with reservoir operators and water users in the southwest to maximize the effectiveness of water use in a year of very limited runoff. Through careful monitoring of flow rates and reservoir levels, staff were able to direct the timing and rate of releases to facilitate a wide variety of uses from 16 area reservoirs in seven watersheds.

Water Supply Evaluations

Sask Water provided assessments of potential water supplies for proposed feedlots in the Hodgeville, Gull Lake, and Consul areas, a proposed ethanol plant in the Eastend area, hog barn proposals in the Admiral area, and alternative water sources for the communities of Kincaid and Cabri. Providing water supply assessments assists the developer or community in determining the economic viability of their proposals.

Water Pumping Equipment Rental Program

The Water Pumping Equipment Rental Program makes equipment owned by Sask Water available to farms and municipalities, with rental rates set to recover program operating costs. More than 900 clients took advantage of the program in 2001, almost tripling the average of the previous five years. A policy change in 2001 reduced the rental rate for equipment needed to pump greater than one mile. In 2001, about 17% of pump jobs were greater than one mile, while the previous five years had averaged about 4%. The late arrival of winter, plus the cooperation of users in completing their pumping jobs quickly, contributed to a successful 2001 program with every applicant able to complete their pumping.

sustaining our environment

Sask Water manages the Province's water resources for the benefit of all Saskatchewan citizens. Throughout the Province, Sask Water staff work to balance water uses and stakeholder interests to ensure the sustainability of both water-based developments and aquatic ecosystems. To support this effort, Sask Water directly operates an extensive hydrometric network of more than 150 stations and partners with Environment Canada on approximately another 150 stations. It also maintains databases of information on streamflow, lake levels, wells and groundwater, water use and licensed projects. The River Forecast Centre provides water supply forecasts for major rivers as well as flood warnings.

Piping Plover

The Piping Plover, a threatened species, is drawn to the beaches of Lake Diefenbaker to nest. The lake normally rises considerably in early summer posing a serious threat to nests and fledglings. Sask Water has participated with a number of federal and provincial environmental agencies in the development of a Piping Plover conservation plan for Lake Diefenbaker and has modified its operations to accommodate the nesting birds.

Souris River Flood Operations

Spring runoff was well above normal throughout the Long Creek, Souris River and Moose Mountain Creek basins, resulting in significant inflows into Boundary, Rafferty and Alameda reservoirs. Sask Water was able to prevent downstream flood damages, reducing peak flows by 50% at the Canada-United States border by:

- drawing down the three reservoirs in preparation for the incoming flood,
- diverting flood flows from Boundary into the much larger Rafferty Reservoir, and
- surcharging both Rafferty and Alameda.

Interjurisdictional Water Management

Most of Saskatchewan's river systems are shared with the provinces of Alberta and Manitoba or the states of Montana and North Dakota. Saskatchewan's right to water is protected under various agreements that stipulate how the water is to be shared and protected.

The terms and conditions under the various agreements on most streams were met. The only exception was on the Lodge and Middle creeks between Alberta and Saskatchewan where, due to drought, Alberta was unable to make up a small shortfall that had been carried over from the previous year. To minimize losses, it was agreed that Alberta would make up the shortfall in 2002.

Agreements for how water should be shared are particularly important in drought years. In 2001, southern Alberta received well below normal precipitation resulting in below normal flows on the South Saskatchewan River. Under the terms of the Master Agreement on Apportionment, Alberta is generally entitled to use up to 50% of the flow that originates in Alberta. In an average year, Alberta will pass about 80% of the flow but, in 2001, Alberta passed only 57% of the available flow to Saskatchewan.

In anticipation of a high use year, the Prairie Provinces Water Board instituted more frequent monitoring and reporting to the members to ensure that the requirements of the agreement were met.

Swan Lake Basin Management Plan

Sask Water is participating in the development of the Swan Lake Basin Management Plan. Swan Lake basin straddles the Manitoba/Saskatchewan border. The plan development is being led by the Province of Manitoba, with contributions from federal and provincial agencies in Manitoba and Saskatchewan. The goal is to develop a plan that will guide water management and development on both sides of the border. Work to date has resulted in the compilation of background technical information for the plan. Work in 2002 will involve local groups developing the management plan with support from government agencies.

Watershed Stewardship

Sask Water continued to work with the public through three original stewardship groups representing Jackfish-Murray, Good Spirit and Big Shell lakes. The stewardship program is expanding to include the Swift Current Creek Watershed, Moosomin Reservoir, Crystal Lake, Fishing Lake and Little Manitou Lake. Activities under the program included monitoring water quality, giving presentations and workshops to interested stakeholders and preparing reports and articles. Work continues towards the formation of the Saskatchewan Network of Watershed Stewards (SNOWS), a cooperative organization that will facilitate all stewardship activities in the Province. The group is planning a workshop called Working Together for Healthy Watersheds, setting up a website and establishing an office where citizens can access information by the spring of 2002.

Upper Assiniboine Pilot Program

In an effort to try and conserve wetlands and stream corridors, Sask Water partnered with Ducks Unlimited Canada and SERM in a pilot project where paid conservation easements will be offered to landowners in 2002 within a targeted area of the Upper Assiniboine River basin.

Regulatory Processes

Sask Water participates in the regulation of developments that affect our water resources. Land drainage and surface and ground water use are regulated through The Water Corporation Act. The regulation of works helps ensure that projects do not cause damages to others. Through the issuing of approvals to construct and operate works, annual diversions of water are allocated for municipal, industrial, irrigation and other uses.

permits & approvals

Surface Water Unit		Ground Water Unit	
o approvals to construct works	48	o approvals to construct works	4
o approvals to operate	95	o approvals to operate	100
o approvals authorizing private domestic dams	564	o investigation permits	28
o temporary water use permits primarily for oil exploration activities	409		

Regulating the use of water ensures that approvals are given only to those developments where there is an adequate supply of water.

Sask Water also provides water related expert advice to other agencies in regulatory processes intended to protect the environment, including Saskatchewan Agriculture and Food on proposed intensive livestock operations (*The Agricultural Operations Act*) and SERM on project developments (*The Environmental Assessment Act*). Sask Water is also a member of the provincial Environmental Assessment Review Panel that reviews all projects submitted to SERM under *The Environmental Assessment Act*.

Water Disputes

The Water Corporation Act allows persons to lodge formal complaints against water-related works that might cause damage. This is a less expensive and time consuming alternative to legal recourse. While decisions and orders rendered by Sask Water under the Act may be appealed, the process has proved to be an effective means of resolving water disputes.

complaints

2001

o unresolved complaints at January 1	74	o unresolved complaints at December 31	63
o new formal complaints	38	o informal complaints	211
o formal complaints resolved	49		

Revisions to Complaint Process

In response to recent years of high runoff in eastern Saskatchewan, the workload in the complaint program has been significantly greater than normal. To address the situation, resources were reallocated and the administration of the program altered to ensure legitimate complaints are promptly addressed. It is anticipated that these changes will provide an improved, timely service to our customers.

Water Appeal Board

In 2001 Sask Water worked with SERM to evaluate the current Water Appeal Board process to determine whether there are means to reduce the time from the filing of an appeal until the Board renders its decision. The issue of enforcement of decisions was also evaluated. Recommendations are expected in 2002.

enhancing research, development and education

Project WET

Project WET (Water Education for Teachers) is an interdisciplinary water education program for Kindergarten to Grade 12 students. The program is designed to promote awareness, appreciation and knowledge of water resources and provides effective methods to introduce complex water issues. This year, four workshops were held and 70 educators, university education students and water resource people took part. Since Sask Water took over responsibility for Project WET in 2000, a total of 240 people have been trained to support this aspect of Saskatchewan's Core Curriculum. Sask Water also undertook plans this year to hold a facilitator training workshop in early 2002. It is expected that many attending the workshops, including seven Sask Water employees, will advance to the facilitator training workshop. This will enhance the pool of facilitators available for workshops. Sask Water presented Project WET educational activities to 50 aboriginal students from the Saskatoon Tribal Council at Candle Lake this summer.

Also in 2001, a Project WET Committee was formed to bring together the educators and water resource people from various groups. These groups include:

- University of Saskatchewan,
- University of Regina,
- Saskatchewan Indian Federated College,
- Partners for the Saskatchewan River Basin,
- Saskatchewan Science Teachers Society,
- Project WET Canada,
- Environment Canada,
- a teacher representative, and
- the managing partners of the program: Sask Water, Saskatchewan Education, and Canadian Water Resources Association.

The committee will provide the networking needed to promote the program, quality control, development of supplementary materials and coordinating the need for support resources. In addition, the committee will direct the program and its delivery.

Scholarship Programs

University of Saskatchewan Scholarship:

Recognizing the need for graduates with advanced training in the general fields of hydrology and water resources, Sask Water maintains a $2,000 scholarship to encourage students to pursue an advanced program of graduate study. To be eligible, applicants must be full-time graduate students, accepted by the College of Graduate Studies and Research, to pursue or continue a program of study leading to a masters or doctoral degree through the College of Engineering, University of Saskatchewan. Preference is given to students whose research accords with the interests of Sask Water or the Division of Hydrology, College of Engineering.

Dena McMartin of Watrous was awarded the Sask Water Scholarship in February 2001 during the 42nd Annual Scholarships and Awards Ceremony. McMartin is currently enrolled in the College of Graduate Studies where she is pursuing a doctorate in environmental engineering. Her area of research is water quality and the degradation of bitumen-based compounds (naphthenic acids).

SIAST Scholarship:

Sask Water has introduced a new scholarship program it hopes will inspire "innovation and resourcefulness" among Saskatchewan's post-secondary students. Sask Water supports the Palliser Campus Development Foundation in providing the Water Resource Engineering Technology Scholarship to a Saskatchewan high school student entering the first year of the Water Resources Technology Program at SIAST Palliser Campus. The $1,000 award is based on scholastic achievement and a 200-word essay on the importance of water in Saskatchewan. First year SIAST student Justin Relland of Nipawin was awarded the 2001 scholarship.

Partnership in Education with Central Collegiate:

In 2001, through a partnership in education with Central Collegiate, Sask Water organized and provided a tour of the Avonlea Dam Rehabilitation Project for a class of 33 Grade 10 science students. The tour coincided with the unit of study on water quality. Three Sask Water employees accompanied the students on the tour, providing information about the purpose of the project, project construction and related occupational health and safety considerations. This type of activity enhances the learning experience and encourages students to pursue future studies in the areas of science, engineering and technology.

Moose Jaw Public School Division:

In 2001, as part of the Moose Jaw Public School Division Work Education Program, Sask Water provided a 75-hour work experience placement to a Grade 12 student interested in pursuing a career in journalism. Through the program, students have the opportunity to explore possible career areas, become familiar with the relationship between school and work, and develop an understanding of employment opportunities and responsibilities through on-the-job experience. Participating in the program gives Sask Water the opportunity to provide students with experience that may assist in choosing a future career.

Co-operative Education Programs:

Sask Water hired seven co-op students in 2001 for eight month terms. Five students from SIAST Palliser Campus worked in either Project Engineering or Utility Operations. Two students from the University of Saskatchewan College of Agriculture worked in Irrigation and Agricultural Services.

Students participating in the co-operative education programs receive an opportunity to gain meaningful and practical work experience in their chosen field of study. Sask Water benefits from the program by having an opportunity to preview potential future employees and to contribute to the important task of training our future workforce.

Valuing Employees

Training Opportunities:

Sask Water is an engineering and technical knowledge based Corporation. Recognizing that one of its key assets is the expertise of its work force, the Corporation is developing recruitment and retention strategies with a focus on making the Corporation an employer of choice for both new and current employees.

One key strategy adopted was to place a strong emphasis on employee development and career enhancement initiatives. Sask Water has implemented tuition reimbursement, educational leave and workshop attendance policies that place a high priority on easy access and being employee friendly. The Corporation has also investigated and identified opportunities for partnerships with Saskatchewan based educational institutions and professional organizations to develop programs targeted at enhancing existing employee skill sets, thus enhancing career opportunities for employees.

Recognizing Achievements:

Through a long-service recognition program, Sask Water recognizes the devotion and commitment of its staff and acknowledges, on an annual basis, all staff reaching milestones of 5, 10, 15, 20, 25, 30 and 35 years with appropriate gifts and activities. During 2001, a total of 60 staff were honoured, including 17 employees with 25 or more years of service.

Employee Education Programs:

Sask Water, in partnership with SIAST, Palliser Campus and Saskatchewan Applied Science Technologists and Technicians (SASTT), developed an accredited Water Resources Technician Program. This program provides long service employees, without any post-secondary education, an opportunity to have their on-the-job acquired knowledge, skills and abilities formally recognized and enhanced through prior learning assessment and completion of a program of formal post-secondary courses and on-campus training workshops delivered at SIAST, Palliser Campus. The program was targeted for approximately 20% of Sask Water staff. More than 70% of eligible employees have enrolled, exceeding expectations. The program will see its first graduates in the spring of 2002, with an expected success rate of over 90%. Upon graduation, participants will also be eligible for Certified Technician (C.Tech.) status with SASTT. Owing to the success of the Water Resource Technician Program, Sask Water is currently working with SIAST, Palliser Campus and SASTT to develop a Computer Aided Design and Drafting (CADD) Technician Program.

Building Community Through Sponsorships

Sask Water is committed to good corporate citizenship. This commitment is expressed in part through sponsorship of a variety of community events and organizations from around Saskatchewan. During 2001, Sask Water supported nearly 200 community and conservation groups with donations in cash or kind. These included:

- Canadian Dam Association,
- Saskatchewan Conservation and Development Association,
- Moose Jaw Engineering Society,
- Cudworth Minor Hockey Tournament,
- Moose Jaw Kiwanis Club Western Canadian Speed Skating Championships,
- Regina Science Fair,
- John Paul II Collegiate SRC, North Battleford, and
- Moose Jaw Festival of Words.

strategic performance reporting to crown investments corporation

Sask Water is committed to a governance process that balances the need to take action within its mandate while maintaining accountability to the Government and the people of Saskatchewan.

The Crown sector performance management system integrates shareholder expectations in the form of public policy, financial and commercial objectives into the Crown Corporation business planning process. Sask Water has developed targets and measures associated with these objectives for ongoing performance measurement. Ongoing monitoring, reporting and evaluation are also possible.

An essential element of performance management is accountability. The performance management model used by Crown Corporations is the Balanced Scorecard model. The Balanced Scorecard assigns responsibilities for achieving certain results and reports as to what has actually been done.

Sask Water has developed its business process along four strategic objectives dealing with Public Policy, Financial Health, Growth and, Innovation, and Customer Focus. These areas form the quadrants of Sask Water's Balanced Scorecard. The Balanced Scorecard system of performance management is work in progress in which objectives, measures and targets are reviewed and monitored each business cycle. The following is Sask Water's 2001 Balanced Scorecard.

acquisition		Actual	Target	Results	Target
Objectives	Measures	2000	2001	2001	2002
Provide awareness and knowledge of Sask Water	Number of new and follow-up contacts to municpal and industrial clients	not tracked in 2000	6	70	70
To grow the utility business	Annual capital expenditures on new projects ($ Millions)	$1.1	$4.2	$0.35	$5.1
Provide access to safe quality water	Number of clients served by the Rural Water Quality Advisory Program	427	400	598	425

public policy		Actual	Target	Results	Target
Objectives	Measures	2000	2001	2001	2002
Buy Saskatchewan products and services	Percentage of products and services sourced in Saskatchewan	92%	81%	85%	82%
Support of organizations, sporting, and educational events with water-based themes	Financial Donations by Sask Water	$15,590	$10,000	$21,426	$10,000
Project WET – Water Education for Teachers	Train new teachers for Project WET	170	200	72	200
Hiring practices that support employment diversity	Percentage of diversity target group hires of total hires	30%	30%	32%	35%
Support the achievement of a diverse workforce	Number of outreach agencies advised of job opportunities	15	14	17	14
Increase employee acceptance of diversity	Diversity training - total employee days	94	100	75	100

trust		Actual	Target	Results	Target
Objectives	Measures	2000	2001	2001	2002
Increase citizen participation	Number of new water stewardship associations developed	not tracked in 2000	0	2	2
Upgrade all Sask Water dams to meet current Dam Safety Criteria	Number of dams not meeting Dam Safety Criteria	34	28	33	23

innovation & growth		Actual	Target	Results	Target
Objectives	Measures	2000	2001	2001	2002
Build and monitor employee satisfaction	Annual Employee survey	6	6.2	6.1	6.4
Enhance employee training	Training costs as percentage of employee salaries	2.21%	2%	2.4%	2%

financial health

Objectives	Measures	Actual 2000	Target 2001	Results 2001	Target 2002
Undertake public policy water activities at a sustainable level	Public policy cash flow ($ Millions)	($0.5)	($0.6)	($4.04)	($1.4)
Earn an appropriate return on the public's investment	Return on Equity: Overall (excluding Wakaw-Humboldt project)	6.8%	5.0%	5.3%	6.1%
	Projected Internal Rate of Return: Municipal	9%	9%	9%	9%
	Projected Internal Rate of Return: Industrial	11%	11%	11%	11%
Ensure debt is kept to a sustainable level	Debt to Debt Equity ratio - Overall Utility	74%	76%	76%	78%
	Debt to Debt Equity ratio - Utility excluding Wakaw - Humboldt	38%	40%	38%	40%
To maintain and improve shareholder value	Economic Profit (Loss) ($ Millions)	($0.4)	($0.8)	($0.67)	($0.8)

satisfaction

Objectives	Measures	Actual 2000	Target 2001	Results 2001	Target 2002
Operate the utility to meet customer needs	Average time customers not supplied with water when problems occur	not tracked in 2000	20 hours	5.3 hours	19 hours
Timely resolution of drainage disputes	Number of cases over 18 month resolution threshold	21	15	27	17
	Number of informal disputes resolved	211	250	256	275
Create positive relationships with customers	Annual utility customer satisfaction survey	not tracked in 2000	7.9	8.9	8.0
Provide access to safe drinking water	Number of boil water advisories for treated water supplied by Sask Water	0	0	0	0

management's discussion and analysis

This section is intended to provide further analysis of Sask Water's financial performance and should be read in conjunction with the audited financial statements and accompanying notes included in this annual report.

1. Corporate Overview

Sask Water's operations are structured along three lines of business:

1.1 Water Management and Protection

As the Province's water manager, Sask Water develops management strategies, forecasts, allocates and approves water use for the benefit of all the people in the Province. Operation, maintenance and rehabilitation of public policy water management infrastructure such as dams and water control and conveyance works is also a key activity.

1.2 Water Supply and Transmission (Utility)

The Corporation is engaged in the supply of both treated and raw water to municipalities, industrial, commercial and agricultural customers and for wildlife and recreational purposes; Sask Water owns and operates these distribution systems. As well, the Corporation owns and operates a wastewater treatment facility. All these works are operated on a utility basis whereby operating and capital costs are recovered from customers on a long-term break-even basis.

1.3 Water-Based Economic Development

Sask Water is responsible for undertaking water-based economic development programs in order to develop and effectively use our water resource to strengthen and diversify the provincial economy. In this role, the corporation provides engineering, agronomic and soil suitability technical support for existing and potential irrigators.

2. 2001 Financial Highlights

2.1 Water Management and Protection

In 2001, the water management segment of the Corporation incurred a net loss of $3,743,000 compared to a net loss of $514,000 in 2000. The loss is due primarily to Water Power Act revenues being down due to lower runoff levels. Costs (operating and water management) that are funded from this revenue source cannot be adjusted without significantly affecting the operations of the corporation. Operating costs increased from the prior year due to inflation factors and union agreement obligations. As well, in 2000, CIC provided a one-time grant to Sask Water as part of the potato-related business transfer. This revenue source was not available in 2001.

2.2 Water Supply and Transmission (Utility)

The utility segment of the Corporation incurred a $433,000 net loss on revenues of $13,232,000. The loss was an increase of $115,000 over the prior year. Excluding the Wakaw-Humboldt system (losses recovered through 30-year water supply contracts), the utility segment had net earnings of $1,165,000, down by $361,000 from 2000. Although revenue increased in the year, operating costs increased also. As well, approximately $500,000 of deferred costs capitalized in prior years were expensed in 2001. These expenditures relate to water supply investigation costs incurred in previous years; it is not expected that these costs will be recovered from related future revenues.

Capital expenditures for the utility in 2001 totalled $712,000. The majority of these costs related to the costs incurred to date on the SPC-PCS Co-Gen Project and the Town of Lanigan Bypass pipeline.

2.3 Water-Based Economic Development

Sask Water expensed $1,896,000 to the water-based economic development grant program. Activities funded by this program included: technical assistance provided to irrigators, agronomic and administrative support for the Irrigation Crop Diversification Corporation, as well as, investigative work to determine the cause, magnitude and corrective action required to address pipeline corrosion problems encountered at the major projects located at Luck Lake and Riverhurst.

3. Outlook for 2002

3.1 Water Management and Protection

Rehabilitative work on the public policy water management infrastructure, such as dams and water control and conveyance works, will continue through 2002 and into future years. In 2002, the Corporation will complete the work started at the Avonlea Dam structure. As well, other upgrading will be undertaken to: modify the Alameda hydraulic gates, restore the Wascana Lake Weir and Emma Lake Diversion project.

In 2002, Sask Water will begin to gradually phase out the rural water control assistance program, and will reallocate funds towards a more comprehensive watershed stewardship program. This change is being implemented in order to: address a broader range of water management issues than what was being addressed through the old program; address increasing pressures to protect wetlands, riparian habitat, and in-stream water quality; and, address a declining demand to build new water control projects.

3.2 Water Supply and Transmission

In 2002, Sask Water will proceed with the construction of water supply works to a joint SaskPower International Inc. and Atco Power Canada Ltd. power production co-generation project at the PCS Cory mine near Saskatoon. Also, the Corporation has undertaken preliminary design work on a new municipal project with the Town of Hague.

3.3 Water-Based Economic Development

Sask Water's engineering, agronomic and soil-water suitability technical assistance programs, along with support for irrigation research and demonstration projects based at the Canada-Saskatchewan Irrigation Diversification Centre, will dominate program activities. Investigations into the emerging pipeline corrosion problems at the Riverhurst and Luck Lake irrigations projects will also continue. A more proactive approach will be undertaken whereby selected portions of pipeline, which have been identified to be potential problems, will be replaced.

management's responsibility for financial reporting

Management has prepared the consolidated financial statements of the Corporation in accordance with generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Corporation prepared these consolidated financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

PricewaterhouseCoopers LLP, the Corporation's external auditors, have examined the December 31, 2001 consolidated financial statements and their report follows.

The Board of Directors of Sask Water has examined and approved the statements.

On behalf of the Corporation,

Clare Kirkland
President

Terry Hymers
Corporate Comptroller

January 31,2002

auditors' report

To the Members of
the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Water Corporation as at December 31, 2001 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Saskatchewan Water Corporation as at December 31,2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Regina, Canada
January 31, 2002

consolidated statement of financial position

as at December 31	2001	2000
	(Thousands of Dollars)	
Assets		
Current Assets		
Accounts receivable and advances	$ 4,297	$ 4,506
Prepaid expenses and supplies	1,976	637
Current portion of long-term accounts receivable (note 3)	100	99
	6,373	5,242
Long-term Receivables (note 3)	701	822
Capital Assets (note 4)	63,220	65,541
	$ 70,294	$ 71,605
Liabilities and Province of Saskatchewan's Equity		
Current Liabilities		
Bank indebtedness	$ 527	$ 499
Accounts payable and accrued liabilities	4,312	4,258
Notes payable (note 5)	5,248	1,005
Deferred funding (note 6)	528	581
Current portion of long-term debt (note 8)	669	628
	11,284	6,971
Deferred Revenue and Prepayments (note 7)	4,997	5,482
Long-term Debt (note 8)	35,216	36,349
Other Long-Term Obligations (note 9)	693	523
	52,190	49,325
Province of Saskatchewan's Equity		
Equity advance (note 10)	700	700
Contributed surplus	1,612	1,612
Retained earnings	15,792	19,968
	18,104	22,280
	$ 70,294	$ 71,605

Commitments and Contingencies (note 12)
See accompanying notes

On behalf of the Board:

Director

Director

consolidated statement of operations and retained earnings

year ended December 31	2001	2000
	(Thousands of Dollars)	
Revenue		
Water	$ 20,845	$ 20,501
Grants from General Revenue Fund	5,491	8,263
Grant from CIC (note 14)	–	1,200
Amortization of deferred revenue	186	191
Rental income and surface leases	293	324
Other	1,167	1,113
Transfer from Deferred Funding (note 6)	53	712
	28,035	32,304
Expenses		
Operations	15,758	12,914
Water Management	5,356	4,714
Grants to Clients (note 11)	4,230	5,235
Water Management Infrastructure Expenses	736	3,418
Public Policy (note 6)	53	712
Amortization of capital assets	2,734	2,794
Interest	3,344	3,349
	32,211	33,136
Loss before the following	(4,176)	(832)
Loss from discontinued operations (note 13)	–	(1,184)
Net Loss	(4,176)	(2,016)
Retained earnings, beginning of year	19,968	21,984
Retained earnings, end of year	$ 15,792	$ 19,968

See accompanying notes

consolidated statement of cash flows

year ended December 31	2001	2000
	(Thousands of Dollars)	
Operating Activities		
Net loss	$ (4,176)	$ (2,016)
Charges and credits not affecting cash:		
Amortization of capital assets	2,734	3,271
Amortization of deferred revenue and prepayments	(585)	(696)
Amortization of premium	(45)	(45)
Sinking fund earnings	(162)	(156)
Gain on disposal of assets	–	(14)
Assets under construction expensed	438	–
Net changes in non-cash working capital balances relating to operations:		
Deferred funding	(53)	(712)
Deferred revenue and prepayments	145	362
Other	(853)	(1,131)
Cash used in operating activities	(2,557)	(1,137)
Investing Activities		
Long-term receivables	121	(120)
Capital expenditures	(905)	(1,469)
Proceeds on disposal of assets	–	1,017
Cash used in investing activities	(784)	(572)
Financing Activities		
Proceeds from notes payable	4,243	1,928
Retire long-term debt	(628)	(676)
Sinking fund instalments	(302)	(302)
Cash provided by financing activities	3,313	950
Decrease in Cash	(28)	(759)
Cash(Bank Indebtedness), Beginning of Year	(499)	260
Bank Indebtedness, End of Year	$ (527)	$ (499)
Interest paid during the year	$ 3,359	$ 3,576

See accompanying notes

notes to the consolidated financial statements

December 31, 2001

1. Status of the Corporation

The Saskatchewan Water Corporation (the Corporation) was established on July 1, 1984, under the authority of The Water Corporation Act.

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

In accordance with the provisions of The Water Corporation Act, the Corporation's general powers and purposes are to manage, control, develop and administer the use of all water resources in the Province of Saskatchewan in an economic and efficient manner, and to own and operate water-related works. In fulfilling its mandate, the Corporation has constructed various regional water supply utility systems and public policy water management and water supply works. The Corporation also delivers various economic development programs on behalf of the Province of Saskatchewan. In addition, the Corporation may provide financial assistance to various persons, communities and organizations to carry out its general powers and purposes.

The Corporation's activities are also governed by agreements with various agencies of the Government of Saskatchewan. The agreements provide, among other things, for the Corporation to receive revenue from the General Revenue Fund and other agencies to finance the acquisition of capital assets, to make payments of grants to clients, to make public policy expenditures and to fund operations. These activities are thereby dependent on funding from the General Revenue Fund.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include certain estimates based on management's judgement. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

Capitalization of Expenses

Internally provided engineering and technical services are capitalized at standard labour rates designed to recover salaries, benefits and overhead. The objective of this policy is to recognize the approximate value of design, supervision and administrative services rendered by Corporation employees on construction projects. Internally provided services capitalized amounted to $184,850 (2000 - $136,000). As well, the Corporation capitalizes interest expense on debt relating to specific construction projects until they are substantially completed. During the year, $0 (2000 - $0)in interest was capitalized.

Grants from the General Revenue Fund

Under the authority of Section 21 of The Water Corporation Act, the Corporation receives grants from the General Revenue Fund out of monies appropriated by the legislature. These grants are recorded as revenue when received and are used to fund grant programs, water management infrastructure expenses and operations.

Grants to Clients

Grants provided to clients for a variety of programs are recorded as an expense to the Corporation if the final approval for the grant payment was made during the year. Where the Corporation enters into contractual agreements for project construction under various assistance programs, expenditures are accounted for on an accrual basis.

Capital Assets

Capital assets are recorded at cost to the extent that these costs are recoverable from future operations. Assets under construction are capitalized at cost, and are transferred to the appropriate asset category when construction is complete and the asset is in use. Assets are capitalized at cost net of any subsidies or contributions received for that specific purpose.

Amortization of capital assets is calculated at the following annual rates designed to amortize the recorded cost over the estimated useful lives of the capital assets. Assets under construction transferred to the appropriate asset category before June 30th are amortized for the full year, otherwise they are not amortized until the following year.

Capital Assets	Method	Rate
Buildings	straight-line	2.5% to 5%
Water Facilities	diminishing balance or straight-line, as appropriate	2% to 30%
Maintenance and Office Equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Post Retirement Benefits Other Than Pension

The Corporation administers a benefit relating to a retirement allowance which is paid to eligible employees upon retirement. The Corporation has adopted the accrual method of accounting for this benefit whereby the cost of providing the benefits is recorded when the related services of employees are performed.

Basis of Consolidation

The consolidated financial statements include the accounts of Saskatchewan Water Corporation and the following subsidiaries: Lucky Lake Potato Storage Inc., Riverhurst Potato Storage Inc. and Tullis Potato Storage Inc. The subsidiary corporations were dissolved on September 6, 2001. Balances in asset, liability and equity accounts were transferred to Saskatchewan Water Corporation.

Segmented Information

Revenue and expenses directly attributable to the utility and water management segments (as well as SPUDCO in 2000) of the Corporation's activities are reflected in the results of operation of each segment. Also included is an allocation of general administration expenses based on support services involvement with various segments.

3. Long-Term Receivables

	2001	2000
	(Thousands of Dollars)	
Year Receivable		
2001	$ –	$ 99
2002	100	111
2003	73	72
2004	295	297
2005	261	263
2006	28	28
2007 and subsequent	44	51
	801	921
Less: Current portion of long-term receivables	(100)	(99)
	$ 701	$ 822

Amounts in this account represent loans issued to various clients for economic development projects repayable over the next several years. These loans are non-interest bearing; no security is held on these loans.

4. Capital Assets

			2001	2000
			(Thousands of Dollars)	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,554	$ –	$ 1,554	$ 1,547
Buildings	1,200	576	624	720
Water facilities	86,491	26,464	60,027	61,599
Maintenance equipment	2,560	2,012	548	532
Office equipment	1,482	1,288	194	231
Assets under construction	273	–	273	912
	$ 93,560	$ 30,340	$ 63,220	$ 65,541

During the year, the Corporation wrote-off $438,000 of assets under construction to operations expense.

5. Notes Payable

Due Date	Interest Rate	2001	2000
		(Thousands of Dollars)	
March 28, 2002	1.98%	$ 5,248	$ –
March 31, 2001	5.63%	–	1,005
		$ 5,248	$ 1,005

By Order-in-Council, Sask Water is authorized to borrow up to $25,000,000 by way of temporary loans from the Province of Saskatchewan - General Revenue Fund.

6. Public Policy Expenditures and Deferred Funding

As an agency of the Government of the Province of Saskatchewan, the Corporation incurs expenditures for various physical works for which it retains ownership. A public policy expenditure is recorded when such works do not directly produce sufficient revenue to finance their costs.

The majority of these expenditures relate to the Souris Basin and major irrigation projects.

The funding and related construction costs incurred from January 1, 1986 to December 31, 2001 are as follows:

	2001	Jan 1 1986 to Dec 31 2000	Total
		(Thousands of Dollars)	
Funded by:			
Province of Saskatchewan - General Revenue Fund	$ –	$ 195,249	$ 195,249
U.S. Government	–	62,222	62,222
Saskatchewan Power Corporation	–	20,300	20,300
Revenue Canada - GST rebate	–	2,309	2,309
	–	280,080	280,080
Construction costs	(53)	(278,733)	(278,786)
Transfer to deferred revenue and prepayments	–	(766)	(766)
Deferred funding	$ (53)	$ 581	$ 528

Construction costs of the Souris Basin projects are funded by the General Revenue Fund, the U.S. Government and Saskatchewan Power Corporation. Amounts received in excess of expenditures incurred are recorded as deferred funding. Any amounts remaining at project completion are to be repaid to the General Revenue Fund.

7. Deferred Revenue and Prepayments

Deferred revenue and prepayments, in part, represent revenue received from certain customers at the commencement of supply. These prepayments, which relate to the utility operation, are amortized into utility water revenue at 5% per annum on a straight-line basis or are matched against annual expenses.

Premium and issue costs relating to long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issue.

	2001	2000
	(Thousands of Dollars)	
Balance, beginning of year	$ 5,482	$ 5,861
Contributions received	145	362
Amortization of revenue	(186)	(191)
Amortization of premiums	(45)	(45)
Amortization of prepayments	(399)	(505)
Balance, end of year	$ 4,997	$ 5,482

8. Long-Term Debt

Year Payable	Interest Rate	2001	2000
		(Thousands of Dollars)	
2001	6.875%	$ -	$ 628
2002	7.000%	669	669
2003	7.250%	714	714
2004	7.375%	764	764
2005	7.500%	7,618	7,618
2006	7.500%	876	876
2007	7.813%	940	940
2008-2016	8.014%	12,403	12,403
2022	9.600%	15,000	15,000
		38,984	39,612
Less: Current portion of long-term debt		(669)	(628)
Less: Equity in sinking funds		(3,099)	(2,635)
		$ 35,216	$ 36,349

These loans are due in the year payable to the General Revenue Fund with interest payable semi-annually. Minimum sinking fund instalments required over the next five years are $218,000 per year.

9. Other Long-Term Obligations

	2001	2000
	(Thousands of Dollars)	
Retirement allowance	$ 693	$ 523

This unfunded employee benefit is discounted at an interest rate of 5.50% (2000 - 6.63%). The amount of allowances disbursed in the year were $16,000 (2000 - $14,000).

10. Equity Advance

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

11. Grants to Clients

Included in expenses are grants or assistance provided to various persons, communities and organizations to carry out a variety of programs administered by the Corporation. In addition, where the condition of financial assistance for certain programs requires the Corporation to provide engineering or technical services, an allocation of salaries to grant expense is made. Particulars of these grants, including salary allocation of $2,140,190 (2000 - $2,232,840), by program, are as follows:

	2001	2000
	(Thousands of Dollars)	
Drought (wells)	$ 411	$ 207
Irrigation Development	1,896	2,598
Municipal Water and Sewage	151	199
Flood Control and Drainage	1,404	1,894
Water Quality	368	337
	$ 4,230	$ 5,235

12. Commitments and Contingencies

Contractual Commitments

As of December 31, 2001, the Corporation has outstanding commitments of $3,668,158 (2000 - $799,453) for construction contracts and consulting agreements primarily relating to assets under construction.

Leases

The Corporation has entered into various operating lease agreements with the following minimum lease payments:

	(Thousands of Dollars)
2002	$ 900
2003	874
2004	832
2005	719
2006	581
2007 and subsequent	1,010
	$ 4,916

Litigation

The Corporation is party to a number of lawsuits and has provided for these claims in its accounts in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

13. Segmented Information

The water management segment of the Corporation includes the activities of water management and protection, and water-based economic development.

The utility segment is responsible for the development and operation of water and waste water facilities, on a utility basis.

Effective June 28, 2000, Sask Water transferred potato-related assets and liabilities to CIC at their respective carrying values. CIC transferred the assets to CIC III to be held in its wholly-owned subsidiary, Saskatchewan Valley Potato Corporation, created under **The Business Corporations Act** (Saskatchewan). The six months of discontinued operations of SPUDCO are included in the 2000 comparative figures.

Statement of Operations

	2001			2000			
	(Thousands of Dollars)						
	Water Management	Utility	Total	Water Management	Utility	Discontinued Operations SPUDCO	Total
Revenue							
Water	$ 8,963	$ 11,882	$ 20,845	$ 9,857	$ 10,644	$ –	$ 20,501
Grants from General Revenue Fund	4,991	500	5,491	8,263	–	–	8,263
Grants from CIC	–	–	–	1,200	–	–	1,200
Amortization of deferred revenue	–	186	186	–	191	–	191
Potato sales	–	–	–	–	–	1,477	1,477
Rental income and surface leases	219	74	293	243	81	242	566
Other	577	590	1,167	485	628	198	1,311
Transfer from deferred funding	53	–	53	712	–	–	712
	14,803	13,232	28,035	20,760	11,544	1,917	34,221
Expenses							
Operations	7,710	8,048	15,758	6,690	6,224	1,982	14,896
Water Management	5,356	–	5,356	4,714	–	–	4,714
Grants to Clients	4,230	–	4,230	5,235	–	–	5,235
Water Management Infrastructure Expenses	736	–	736	3,418	–	–	3,418
Public Policy	53	–	53	712	–	–	712
Amortization	315	2,419	2,734	321	2,473	477	3,271
Interest	146	3,198	3,344	184	3,165	642	3,991
	18,546	13,665	32,211	21,274	11,862	3,101	36,237
Loss from operations	$ (3,743)	$ (433)	$ (4,176)	$ (514)	$ (318)	$ (1,184)	$ (2,016)
Identifiable Assets	$ 6,300	$ 63,994	$ 70,294	$ 6,052	$ 65,553	$ –	$ 71,605

14. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for revenue which is at rates negotiated between Sask Water and related parties. These transactions, and amounts outstanding at year end, are as follows:

	2001	2000
	(Thousands of Dollars)	
Accounts receivable	$ 1,856	$ 2,095
Accounts payable and accrued liabilities	1,210	1,263
Revenue	9,456	11,933
Expenses	8,921	8,152

In addition, the Corporation pays Saskatchewan Provincial Sales Tax, to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

As part of the potato-related business transfer in 2000, CIC provided a one-time grant of $1,200,000 to the Corporation to complete this transaction.

15. Financial Instruments

The Corporation's recognized financial instruments consist of bank indebtedness, accounts receivable and advances, long-term receivables, accounts payable and accrued liabilities, long-term debt, and notes payable.

Credit Risk The Corporation is exposed to credit risk from the potential default of customers. However, approximately one-half of the Corporation's accounts receivable are from related parties, other government corporations and agencies.

Fair Values The fair values of short-term accounts receivable and all accounts and notes payable approximate their carrying value due to the short-term nature of these instruments.

	2001		2000	
	(Thousands of Dollars)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term accounts receivable	$ 701	$ 659	$ 822	$ 648
Long-term debt	38,984	44,237	39,612	41,866
Sinking fund	3,099	3,090	2,635	2,618

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations and long-term receivables are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

Fair values of other long-term obligations approximate their carrying values. These were estimated using current discount rates.

16. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation.